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SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES - ERITREA

REF: STATE 39410

11. (SBU) The following answers are keyed to reftel. Point of contact is Brian Shelbourn, shelbournbl@state.gov, 291-1-120004.

12. (SBU) DEMAND

Wheat, sorghum, and teff are the most important agricultural commodities in Eritrea and are extremely scarce. World Food Program (WFP) statistics show the price of wheat quadrupled since 2004, including a 62% increase since February 2007, as well as an unexpected increase immediately after the latest harvest. Eritrea is a net importer of these commodities. In 2007 the Ministry of Agriculture (MoA) claimed 80% of Eritrea's food needs were produced locally, but the WFP places this estimate at only 60%.

Despite being desperately short of hard currency the Government of the State of Eritrea (GSE) directly controls all food imports, leaving supplies randomly intermittent. Eritreans adapt to specific grain shortages by combining or substituting wheat, sorghum, teff, and maize as necessary. Most Eritreans consider bread made solely from wheat flour to be a luxury.

Farmers are forced to sell their entire harvest to GSE grain traders and are not allowed to retain stock for personal use, leaving rural areas in even more desperate condition than the cities. A MoA official recently told WFP director Rahman Chowdhury (protect) that certain (unspecified) areas of the country were experiencing "near famine-like conditions." There have been reports that during July and August many rural residents subsist mainly on the abundant prickly-pear cactus fruit known as belez.

13. (SBU) SUPPLY

Eritrea's economy, including the agricultural sector, is directed by the government. WFP reports show a 15% increase in the number of hectares (ha) under cultivation in the past 4 years, as well as an average yearly production increase of 12% to 20%. There is no known foreign direct investment in the agriculture sector due to the GSE's policy of self-reliance and quest for independent food security. There are no known bottlenecks in the supply chain. Eritrea confiscated 90,000 metric tons (MT) of foreign donor food aid in spring 2006, leaving no operating food assistance programs.

Eritrea is currently facing a chronic diesel fuel shortage, but post has received no reports this is affecting either the harvest or the GSE's food transportation. Rainfall in the region has been very good for the past three years, but if one of the Horn's frequent droughts coincides with current high import costs, WFP and other

in-country food experts have expressed concerns a food crisis could emerge.

Eritreans in Asmara report nearly all grain houses are empty, but some grain is available on the black market. There are reports of ample grain supplies available in Tessenai near the Sudan border (where there is a thriving grey market), but the GSE maintains multiple checkpoints on the roads out of the city and confiscates all smuggled commodities. Sorghum and teff distributed through the Hidri Shops (the government-run food rationing system) have recently disappeared. An Eritrean family of five received 40 kg of either grain (whichever was available) until February, when the ration was cut to only 10 kg before disappearing altogether.

Seasonable vegetables are readily available and relatively inexpensive. The price of goats and sheep has held steady due to decreased incomes caused by the deteriorating economy, leading to decreased demand.

14. (SBU) POLITICAL IMPACT

Eritrea has a totalitarian government that vigorously represses all dissent. Although discontent with food prices and availability is growing and is often told in confidence to Emboffs, dissatisfaction with GSE policies is never expressed publicly in ways that threaten host government stability. The GSE-controlled media blames current conditions on the unresolved border with Ethiopia, and by extension on policies of the U.S. and UN. Large segments of the Eritrean population accept the GSE's account, given lack of alternative media and many people's unquestioning loyalty to a government that achieved Eritrean independence.

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15. (SBU) ECONOMIC IMPACT

Eritrea's international reserves can only support between two and four weeks of imports, forcing the government to prioritize. Emboffs have noted cycles where at least one commodity is always unavailable, suggesting a GSE effort to avoid the appearance of shortages. The GSE has also forced most non-governmental organizations out of the country, including those working in food aid. The country's current account deficit is approximately 30% of GDP excluding remittances and transfers from international organizations, and the IMF projects Eritrea's trade deficit to remain above 20% of GDP through 2010. These indicators denote a country with few extra resources available to shift to food purchases.

Eritrea has a command economy with minimal private sector development. Farmers are forced to sell their crops to GSE traders below market prices. Commodity price increases create no host country beneficiaries other than GSE-tolerated smugglers importing food from Ethiopia, Sudan, and Yemen and black market sellers.

16. (SBU) ENVIRONMENTAL IMPACT

Eritrea was heavily deforested during the 30-year struggle for independence, and wood-based charcoal is culturally the primary source of cooking fuel. In addition, Eritrea has historically faced water shortages and erosion problems. The few NGOs and UN organizations, such as UNICEF, still operating in country focus many of their projects on country-wide water and sanitation needs, which is also a high priority for the government. There are no indications that these pre-existing, wide spread problems are exacerbated by current conditions.

17. (SBU) GOVERNMENT POLICY RESPONSE

On April 17, the GSE made an official statement it would soon announce "an efficient consumption program that puts into consideration future challenges and their consequences." The statement also noted the consumption of the 2007 harvest would have to extend beyond the year, indicating the government recognizes, to some extent, the present food security challenge. Given that Eritrea cannot cover its own food needs even in the best circumstances, this announcement is a cause for concern.

The GSE extended its control over the economy by recently confiscating grain from many private wholesalers and traders. Although grain was seized, much of it disappeared into the black market. The GSE has also forced farmers to sell their harvest to government traders at deeply discounted prices. Again, government policy forced much of the food supply into the black market.

The price of bread, when available, is strictly set at \$.025/100 grams (pre-baked). This price control has led to austere rationing and frequent unavailability. The government also either runs or tacitly accepts a "free trade zone" in Tessenai. Although the zone alleviates some shortages, its full purpose and operations remain unclear.

The IMF and World Bank note the government's emphasis on fiscal tightening, although the GSE has not publicly released budget by which policy changes can be judged.

18. (SBU) IMPACT ON POST PROGRAMS

Current conditions will have minimal impact on post programs. The GSE ordered USAID to leave Eritrea in July 2005, terminated all development and food assistance programs by the end of the year, and confiscated 14,500 MT of USG food aid already in country in spring 2006. The USG continued to support limited humanitarian, therapeutic feeding programs funded by USAID/OFDA and implemented through the local UNICEF office. However, GSE restrictions of all food aid have closed avenues for food assistance, with the exception of these humanitarian programs available only to a small minority of the most at-risk populations.

19. (SBU) POLICY PROPOSALS

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In light of USAID's departure and the GSE's current intransigent stance towards accepting food aid, the USG can provide minimal assistance to Eritrea in its struggle for food security -- at least until the government's policies change. Nonetheless, a poor harvest would create severe hardship on a populace which is barely subsisting under current conditions. Post recommends a serious analysis of any GSE request to provide assistance if an Eritrean food emergency occurs.

110. (SBU) LIST OF PREVIOUS REPORTING CABLES

ASMARA 221
ASMARA 225
07 ASMARA 509
07 ASMARA 806
MCMULLEN